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RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000033

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STATE FOR SCA/CEN, EEB (AMB. MANN)
PLEASE PASS TO USTDA DAN STEIN
ENERGY FOR EKIMOFF/THOMPSON
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E.O. 12958: DECL: 01/08/2018

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SUBJECT: TURKMENISTAN: PRESIDENT PRESSURING STATE AGENCY
FOR HYDROCARBON USE

REF: 07 ASHGABAT 1381

Classified By: Charge Richard E. Hoagland for reasons 1.4(B) and (D).

11. (C) SUMMARY: Bayrammyrat Muradov, the Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources, who the president publicly but indirectly criticized during a December 18 cabinet meeting (reftel), is reportedly under growing pressure and could lose his job before the end of 2008 unless he is able to start delivering new agreements with foreign firms for the Caspian blocks, according to the General Manager of Wintershall/Maersk. During a January 4 meeting with Emboff, the General Manager laid out a picture of the State Agency as a body whose lack of technical expertise is leading to gridlock. While most insiders here agree that the real obstacle to meeting the 2030 Plan oil production goals is declining production by state concerns, the fact that Muradov is not finalizing on-going negotiations is not helping his own case. Moving forward soon with USTDA and Department of Energy training may be critical if we want to see Muradov -- who up to now has seemed to be a much more strategic and flexible thinker than Deputy Prime Minister for Oil and Gas Tagiyev -- continue in his job. END SUMMARY.

12. (C) Commenting on the president's December 18 criticism of the State Agency for Management and Use of Hydrocarbon Resources (reftel), Kal Sandhu, General Manager of Wintershall/Maersk, told Emboff during a January 4 meeting that the State Agency's Executive Director, Barammyrat Muradov, feels under massive pressure and may be forced to leave his job within the next year. According to Sandhu, who claims to meet regularly one-on-one with Muradov, Muradov came to his current job as a very bright individual the president trusted but with absolutely no technical knowledge of the hydrocarbons sector. Muradov was chosen for the job as the person most capable of going out, interfacing with and attracting western companies to bid on Turkmenistan's Caspian

Sea blocks. This is what he excels at, and he has, in fact, netted some bids from foreign companies, but his lack of knowledge of the oil trade has prevented him from taking any of the bids that he has attracted to their final stage -- signed agreements.

MURADOV THE STAR OF A ONE-MAN-SHOW

13. (C) According to Sandhu, Muradov is also handicapped by the lack of experience and knowledge of his subordinates. Although everybody is quite smart and the State Agency's approximately 17 employees are working 18-hour days, they do not know what they are doing. Everybody in the hydrocarbon sector is conscious of the fate of the Competent Body (the State Agency's predecessor under former President Niyazov), which declined sharply and finally was closed after then-Deputy Chairman for Oil and Gas Yolly Gurbanmuradov's arrest on corruption charges. For this reason, technical experts continue to migrate to the Ministry of Oil and Gas or one of the state hydrocarbons concerns, believing that they will have shorter hours and more secure jobs. This is keeping the State Agency undermanned, overworked, and -- with Muradov left making most of the major decisions -- largely a one-man show.

14. (C) Sandhu noted that there are only a small number of "real experts" in the State Agency left over from the Competent Body, limiting the State Agency's ability to support foreign firms. These individuals are attached to foreign firms already working Caspian blocks and help to smooth the company's interaction with other Turkmenistan government agencies. The State Agency employee attached to

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Dragon Oil, who has been in the business for 18 years, is one of the best. (COMMENT: Compared to Wintershall/Maersk, Dragon Oil has no real complaints about the State Agency, though the company's general manager suggested that decisions sometimes take longer than Dragon Oil would wish. END COMMENT.) The individual who used to be attached to Burren Energy has been reassigned to Petronas, and that individual is described as "okay." Burren now has a less competent person, and the individual attached to Wintershall/Maersk is allegedly "terrible." As a result, Wintershall/Maersk has been beset with troubles, including with the tax authorities. Sandhu expressed concern about the State Agency's ability to support a much-larger list of client companies if more international agreements are signed.

PRESIDENT PUSHING FOR MORE FAVORABLE AGREEMENTS

15. (C) Also complicating Muradov's situation is rumored pressure from the president to conclude agreements more favorable to Turkmenistan, according to Sandhu. Particularly looking at the recent sale of Burren Energy to the Italian giant ENI, the president apparently has decided that the foreign firms' profit margin is too great. (NOTE: The Dragon Oil general manager has also picked up similar vibes from his contacts with Turkmenistan's hydrocarbons agencies. END NOTE.) Thus, the State Agency is seeking as it negotiates new PSAs to push for a cost-recovery schedule that is more favorable to the government. (NOTE: There are also rumors that the government is seeking to change royalty and marketing and lifting clauses. END NOTE.)

MURADOV NEEDS TO ACT SOON OR LOSE HIS JOB?

16. (C) Sandhu denied that there is a competition between Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagiyev -- Muradov's boss -- and Muradov himself. Sandhu claimed that Tagiyev, a career hydrocarbons expert, is technically extremely proficient, but he lacks a larger strategic sense for developing Turkmenistan's hydrocarbons market. By comparison, Muradov is a technical neophyte and thus poses no threat to Tagiyev, including in his ability to argue hydrocarbon decisions with the president. Although it

is state concerns like Turkmenneft rather than the foreign companies working oil that are responsible for the leveling of oil production in recent years, Tagiyev could still point to Muradov's inability to finalize any agreements as Muradov's contribution to the problem. (NOTE: Foreign oil production under current agreements is actually increasing across the board, while the years of too-little investment under Niyazov is leading to declining production in the state concerns. END NOTE.) Muradov, Sandhu concluded, badly needs to conclude an agreement with Conoco/Phillips Lukoil very soon, or his job could be in jeopardy.

17. (C) Sandhu noted to help the State Agency become more professional Wintershall/Maersk is sending 10 students to Germany to study. However, he added, this is only a long-term solution, since it will take some years for these students to complete their courses and return to Turkmenistan. He urged the United States seek to assist the State Agency.

18. (C) COMMENT: Wintershall/Maersk has yet to hit oil in its Caspian operations, and that may be part of the reason that it is getting a State Agency third-stringer. While Sandhu can be a tad pessimistic, many of his comments regarding the State Agency ring true to us, particularly about the general lack of confidence and experience within the body. Unlike the situation under Niyazov, receiving presidential criticism no longer leads to automatic

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dismissal, and the president did not mentioned Muradov by name. Nonetheless, we agree that the fact that Muradov has not achieved any new agreements yet does not enhance his chances for longevity in his position. Moving forward soon with USTDA and Department of Energy training may be vital if we want to see Muradov -- who up to now has seemed to be a much more strategic and flexible thinker than Tagiyev -- continue in his job. END COMMENT.
HOAGLAND